

Message Text

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ACTION EB-03

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FM AMEMBASSY GEORGETOWN

TO SECSTATE WASHDC IMMEDIATE 9999

INFO AMEMBASSY KINGSTON

AMCONSUL PARAMARIBO

C O N F I D E N T I A L GEORGETOWN 1219

LIMDIS

E.O. 11652: GDS

TAGS: EMIN, GY

SUBJECT: PRIME MINISTER REITERATES THAT REYNOLDS WILL BE
NATIONALIZED BY END OF 1974.

REF: (A) GEORGETOWN 1191 (B) GEORGETOWN 1214

1. BEGIN UNCLASSIFIED. IN ADDRESS TO GUYANA BAUXITE
WORKERS IN LINDEN ON SUNDAY , 14 JULY THIRD ANNIVERSARY
OF GUYANA BAUXITE COMPANY) PM BURNHAM STATED THAT GOG
WOULD NATIONALIZE REYNOLDS GUYANA MINES LTD BY END OF
1974, QUOTE AS PLANNED UNQUOTE. BURNHAM ALSO EMPHASIZED
THAT NEW TAX (REFTEL) WAS NOT RPT NOT SUBSTITUTE FOR
NATIONALIZATION. (DURING WEEKEND, OPPOSITION PPP PRESS
AND OCCASIONALLY INDEPENDENT GUYANA GRAPHIC HAD CHARGED
THAT TAX WAS ALTERNATIVE TO TAKEOVER OF REYNOLDS HOLDINGS.)
IN REFUTING CHARGE, BURNHAM SAID QUOTE A LEVY IS NOT A
SUBSTITUTION FOR NATIONALIZATION. I HAD PROMISED TO
NATIONALIZE REYNOLDS BY 1974, AND THAT WILL BE DONE,
WITH OR WITHOUT LEVY. UNQUOTE.

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2. ONE OF SALIENT POINTS IN BURNHAM SPEECH WAS WARNING TO REYNOLDS THAT IF COMPANY DECREASES OUTPUT GOG WOULD INVOKE 1971 MINERALS ACT. ACT LEGALLY ENABLES GOG TO TAKE OVER OPERATION OF MINING CONCERNS WHICH INTENTIONALLY REDUCE PRODUCTION. SPECIFICALLY, BURNHAM STATED QUOTE ... IF REYNOLDS WANTS TO RUN DOWN AND REDUCE PRODUCTION WE HAVE NOT ONLY THE LEGAL CAPACITY BUT ALSO THE MANAGERIAL AND PHYSICAL CAPACITY SINCE THE NATIONALIZATION OF GUYBAU TO TAKE OVER REYNOLDS AND RUN IT UNTIL WE ARE READY TO NATIONALIZE IT FULLY. UNQUOTE. END UNCLASSIFIED.

3. COMMENT: THIS IS FIRST TIME BURNHAM HAS PUBLICLY INFERRED THAT MAJORITY EQUITY PARTICIPATION IN REYNOLDS GUYANA IS NO LONGER REALIZABLE GOAL FOR GOG, AND FIRST TIME THIS YEAR HE HAS UNEQUIVOCALLY AND PUBLICLY COMMITTED HIS GOVERNMENT TO NATIONALIZATION BY END OF 1974. BURNHAM TOOK PAINS TO ASSURE CRITICS THAT NEW TAX POLICY WILL NOT AFFECT NATIONALIZATION PLANS. INDEED, HIS STRONG STATEMENT ON TAKE-OVER MAY HAVE BEEN PROMPTED BY CLAIMS THAT TAX MOVE AS A SELL OUT.

4. EMBASSY ESTIMATES THAT JAMAICAN STYLE TAX COULD BE CONSIDERED CONFISCATORY UNLESS LEVEL IS CONSIDERABLY LESS THAN 7.5 PERCENT. IF, FOR EXAMPLE, TAX WERE 5 PERCENT OF CURRENT AVERAGE PRICE OF ALUMINUM, THIS WOULD AMOUNT TO ABOUT \$9.38 US PER TON OF BAUXITE (USING A REDUCTION FACTOR OF FOUR). PRODUCTION COST OF REYNOLDS GUYANA BAUXITE (\$10 US TON) IS, ACCORDING REYNOLDS, ABOUT DOUBLE THAT OF JAMAICAN PRODUCT. TRANSPORTATION COSTS, AGAIN ACCORDING REYNOLDS, ARE OVER FOUR AND ONE HALF TIMES AS GREAT AS SHIPMENT FROM OCHO RIOS TO LOUISIANA. (EMBASSY UNDERSTANDS JAMAICAN TAX WILL INCREASE COST PER TON BY ABOUT \$8 ASSUMING ORDINARY CORPORATE INCOME TAX IS SET OFF AGAINST EXPORT LEVY). THUS, REYNOLDS GUYANA BAUXITE WOULD SEEM TO BE UNECONOMICAL TO PRODUCE, AFTER IMPOSITION OF EVEN FIVE PERCENT TAX. PROBABLY GIVEN CURRENT CIF LOUISIANA OF \$18 US FOR GUYANA BAUXITE, ANY ADDITIONAL TAX WHICH INCREASES COSTS BY FOUR OR MORE DOLLARS PER TON WOULD RENDER OPERATION RELATIVELY UNECONOMICAL.

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5. IF GOG INSISTS THAT FIVE PERCENT TAX SHOULD APPLY TO ALL RPT ALL REYNOLDS GUYANA BAUXITE, EVEN THAT (ABOUT FIFTY PERCENT- REF A) WHICH DOES NOT RPT NOT BECOME ALUMINUM, THERE IS NO QUESTION THAT CONTINUED OPERATION OF COMPANY IN GUYANA WOULD BE IN RED. EMBASSY UNDERSTANDS THAT REYNOLDS PROFIT FROM CALCINED BAUXITE IS LESS THAN NINE DOLLARS PER TON. NEVERTHELESS, GOG COULD COME UP WITH WORKABLE TAX FORMULA WHICH ALLOWS FOR REDUCTION OF

TAX BASED ON TRANSPORT COSTS, INCLUDING INTERNAL TRANSPORT
(150 MILES BY RIVER BARGE FROM KWAKWANI MINES TO ATLANTIC
COAST. BUT QUESTION WE CANNOT ANSWER IS WHETHER REYNOLDS
IS PREPARED TO PAY ANY SIGNIFICANT AMOUNT NOW THAT
BURNHAM HAS SET THE DEADLINE FOR NATIONALIZATION.
EMBASSY BELIEVES THAT IT WOULD TAKE RELATIVELY LITTLE
ADDITIONAL TAX BURDEN TO ENABLE REYNOLDS TO MAKE GOOD
CASE OF CONFISCATION. MATTHEWS

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